



**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric  
Company for Authority, Among Other Things,  
to Increase Rates and Charges for Electric and  
Gas Service Effective on January 1, 2023.

Application 21-06-021  
(Filed June 30, 2021)

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**JOINT MOTION OF PACIFIC GAS AND ELECTRIC COMPANY,  
THE UTILITY REFORM NETWORK AND THE PUBLIC  
ADVOCATES OFFICE AT THE CALIFORNIA PUBLIC UTILITIES  
COMMISSION FOR EXPEDITED APPROVAL AND ADOPTION OF  
THE ATTACHED SETTLEMENT AGREEMENT ON INSURANCE-  
RELATED ISSUES**

SELINA SHEK  
NOEL OBIORA  
ROBYN PURCHIA

Public Advocates Office  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
Telephone: (415) 703-2423  
E-Mail: Selina.Shek@cpuc.ca.gov

Attorneys for  
THE PUBLIC ADVOCATES OFFICE

MICHAEL KLOTZ

Pacific Gas and Electric Company  
77 Beale Street, B30A  
San Francisco, CA 94105  
Telephone: (415) 265-5843  
Facsimile: (415) 973-5520  
E-Mail: michael.klotz@pge.com

Attorney for  
PACIFIC GAS AND ELECTRIC COMPANY

Dated: October 7, 2022

ROBERT FINKELSTEIN

The Utility Reform Network  
785 Market St., Suite 1400  
San Francisco, CA 94103  
Telephone: (415) 929-8876 x307  
E-Mail: bfinkelstein@turn.org

Attorney for  
THE UTILITY REFORM NETWORK

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**1. INTRODUCTION**

Pursuant to Rule 12.1 of the California Public Utilities Commission’s (CPUC or the Commission) Rules of Practice and Procedure (Rules), Pacific Gas and Electric Company (“PG&E”), the Public Advocates Office at the California Public Utilities Commission (“Cal Advocates”), and The Utility Reform Network (“TURN”) (hereinafter referred to collectively as the “Settling Parties”) hereby move that the Commission approve and adopt the attached Settlement Agreement.<sup>1</sup>

The Settlement Agreement proposes a resolution of the disputed issues regarding the structure and funding of excess wildfire liability insurance, an important subset of the disputed issues in this General Rate Case (“GRC”).<sup>2</sup> The key feature of the agreed-upon approach is the

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<sup>1</sup> Attachment A, *Settlement Agreement between Pacific Gas and Electric Company, The Utility Reform Network and The Public Advocates Office at the California Public Utilities Commission on Wildfire Liability Insurance Issues* (Settlement Agreement). Cal Advocates and TURN have authorized PG&E to file this motion on their behalf pursuant to Rule 1.8(d).

<sup>2</sup> This Settlement Agreement on wildfire liability insurance issues is intended to be a stand-alone settlement that seeks to resolve only the issues specifically covered in the settlement, and is not tied to any other outcome on any other issue within the scope of PG&E’s test year 2023 GRC application

proposed reliance entirely on self-insurance to provide excess wildfire liability insurance during the 2023-2026 GRC period, rather than including any third-party insurance options. Under the circumstances here, such an approach has the potential of achieving necessary liability coverage at a substantially lower cost to ratepayers than would be the case through continued reliance on third-party insurance offerings.

Self-insurance offers potential benefits to customers in two main ways as compared to third-party insurance from the commercial market. First, a significant benefit is that to the extent it is not needed in a given year, self-insurance remains available for subsequent years. This is not the case for commercial insurance, where the insurers generally keep most or all of the premiums paid regardless of the amount of claims ultimately made against the policy. As such, in a year with relatively low claims submitted to the insurer for reimbursement, customers are potentially leaving the insurers with hundreds of millions of dollars in premiums exceeding the amount of paid claims. Second, there is often a lag between the time a wildfire event occurs and the time when claims are ultimately paid. As such, the amount of self-insurance that may be necessary to pay claims in future years does not necessarily need to be collected in rates upfront, and all at once. This is not the case for commercial insurance, where the entire amount of premium needs to be paid to the insurance company at the time the policy is purchased, which is often years before the covered claims are paid and reimbursed by the insurer. The Settlement capitalizes on both of these attributes to attempt to provide potential substantial savings to customers through the self-insurance only framework.

To ensure the opportunity of capturing the maximum value of these potential benefits for the 2023-2024 policy year, the Settling Parties are requesting an expedited approval and adoption of this Settlement before PG&E's currently-effective third party insurance coverage expires. If the Settlement is not adopted by that time, PG&E could find it necessary to obtain at least some new third-party insurance coverage for the 2023-24 policy year in order to ensure it does not face

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proceeding.

any period without sufficient coverage. Such an outcome could substantially reduce the benefits the proposed settlement would achieve for ratepayers in 2023. Therefore, the Settling Parties submit that this settlement presents the “rare case where delay beyond a certain date would invalidate the basis for the proposal,” pursuant to Rule 12.1(c) and, on that basis, seek Commission approval no later than February 1, 2023.

In the sections that follow, the Settling Parties demonstrate that Settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

## **2. BACKGROUND**

### **2.1 Recent Developments in Wildfire Liability Insurance for PG&E**

#### **2.1.1 The Cost of Wildfire Liability Insurance Has Increased Significantly**

Over the years, PG&E has regularly maintained liability insurance to protect against third-party claims.<sup>3</sup> In the past, wildfire liability insurance coverage had primarily been obtained through third-party providers and, until relatively recently, was included as part of general liability policies that covered non-wildfire liability as well.

The price of procuring wildfire insurance from third party providers has increased very significantly over the past decade for PG&E and the other California investor-owned utilities (“IOUs”).<sup>4</sup> Wildfire insurance is now generally offered in stand-alone policies that cover only wildfire liability risk. A number of factors have contributed to the increase in the cost of liability insurance providing coverage for wildfire events.<sup>5</sup> These factors include but are not limited to continued exposure to wildfire risk given PG&E’s service area characteristics, California’s application of inverse condemnation law to IOUs, and PG&E-specific considerations such as the percentage of its service territory located in elevated fire risk areas and the frequency and severity of past claims paid by PG&E.<sup>6</sup> The third-party insurance market has responded with a

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<sup>3</sup> Hearing Exhibit (HE) PGE-09, p. 3-10.

<sup>4</sup> *Id.* at 3.24.

<sup>5</sup> *Id.* at 3-23.

<sup>6</sup> *Id.* at 3-24.

reduced number of market participants and available insurance coverage, and an increase in the price of the coverage that is available.<sup>7</sup> For PG&E, this has resulted in its forecast of liability insurance expense having increased from \$52.4 million for approximately \$1 billion of coverage in the test year 2017 GRC, to a forecast of \$357 million in the test year 2020 GRC, and finally to the \$707 million for approximately \$900 million in wildfire liability only coverage in this test year 2023 GRC.<sup>8</sup>

### **2.1.2 The 2020 GRC Settlement Provided Limited Authority for Customer-Funded Self-Insurance.**

The multi-party settlement adopted in D.20-12-005 for PG&E's test year 2020 GRC authorized limited customer funding for self-insurance as part of the utility's insurance program. However, such funding would only have been available had PG&E spent less than the total forecast amount on other insurance products on an annual basis. PG&E was not able to incorporate self-insurance during the 2020 GRC cycle because, as noted above, the cost of purchasing commercial policies providing wildfire liability coverage far exceeded the funding authorized in the adopted forecast.<sup>9</sup>

## **2.2 Settling Parties' Litigation Positions**

### **2.2.1 PG&E (Ex. PG&E-9, Ch. 3)**

In this GRC, PG&E requests authorization to pursue a hybrid approach to obtaining wildfire liability insurance coverage. PG&E's forecast of \$707 million for wildfire liability insurance in 2023 would include a \$250 million revenue requirement to be used only for self-insurance, and a separate \$457 million revenue requirement for procurement of additional third-party wildfire insurance up to an amount that would secure a total of \$1 billion in total wildfire

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<sup>7</sup> *Ibid.*

<sup>8</sup> *Id.* at 3-40 to 3-41; HE TURN-17, pp. 2-3. The 2017 and 2020 GRC forecasts were for liability insurance covering both wildfire and non-wildfire claims, and the 2020 GRC forecast was based on acquiring up to \$1.4 billion of liability insurance coverage. PG&E's forecast of \$707 million for 2023 wildfire liability insurance costs is based on the amount the utility paid for its April 2021 renewal that achieved \$900 million of coverage for the 2021-22 policy year (HE PGE-09, pp. 3-26 to 3-27).

<sup>9</sup> HE PGE-09, pp. 3-29 to 3-30.

coverage for the year.<sup>10</sup> The purpose of the self-insurance only revenue requirement is to ensure that an annual investment in self-insurance would be made in contrast to the structure implemented through the 2020 GRC discussed above, which was dependent on the cost of commercial insurance.<sup>11</sup> For 2023 at least, PG&E would seek to obtain the bulk of the coverage of up to \$1 billion of claims costs (the level before the Wildfire Fund created by AB 1054 can be accessed) in the current market, with continuing efforts to maximize the value from the policies procured in this manner.<sup>12</sup> For each attrition year, PG&E proposed an additional \$75 million for self-insurance revenue requirement, raising the funding dedicated to self-insurance to \$325 million in 2024, 2025 and 2026.<sup>13</sup> The purpose of the attrition adjustment was to account for the fact that PG&E’s 2023 forecast was based on actual cost data from 2021, where it was only able to procure approximately \$900 million in coverage as compared to the \$1 billion target.<sup>14</sup> In addition, to the extent amounts collected in the \$457 million revenue requirement for third-party insurance is not spent on such insurance, it could also be used for self-insurance.<sup>15</sup> All of the associated revenue requirement during the 2023 GRC cycle would be subject to two-way balancing account treatment through the Risk Transfer Balancing Account (“RTBA”), under which PG&E would be authorized to recover its actual costs of procuring insurance coverage of up to \$1 billion, without any further regulatory process or reasonableness review, consistent with the RTBA terms and conditions adopted in the test year 2020 GRC.<sup>16</sup>

### **2.2.2 TURN (Ex. TURN-17)**

TURN’s prepared testimony on insurance-related issues urged the Commission to reject

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<sup>10</sup> *Id.* at 3-32.

<sup>11</sup> *Id.* at 3-35.

<sup>12</sup> *Id.* at 3-25 and 3-35.

<sup>13</sup> *Id.* at 3-32 to 3-33.

<sup>14</sup> *Id.* at 3-27.

<sup>15</sup> *Id.* at 3-33.

<sup>16</sup> *Id.* at 3-34 to 3-35, 3-42 to 3-43 and T. 3-8.

PG&E’s hybrid approach in favor of an approach that relied entirely on self-insurance.<sup>17</sup> TURN contended that spending approximately 80 cents for each dollar of insurance coverage, the approximate cost to PG&E of third-party insurance in the current market, is not reasonable.<sup>18</sup> Instead, TURN explained that it would likely prove to be more cost-effective and fair to PG&E customers for the utility to self-insure all of its wildfire liability risk for the upcoming GRC cycle, with initial funding set at \$333 million per year.<sup>19</sup> TURN also provided for a reimbursement mechanism for the resulting self-insurance fund, with reimbursement costs borne by ratepayers or shareholders depending on whether the Commission determined the paid claims are reasonable under Section 451.1 of the Public Utilities Code.<sup>20</sup> TURN also recommended revisions to the RTBA, with all costs recorded in the account subject to after-the-fact reasonableness review in an application-based proceeding.<sup>21</sup> Finally, to the extent the Commission authorized PG&E to rely on third-party insurance, TURN proposed the associated costs should either be allocated equally between ratepayers and shareholders, or should be “subject to refund” based on a later determination of the extent to which such third party insurance costs are tied to PG&E’s own loss history.<sup>22</sup>

### **2.2.3 Cal Advocates (Ex. CalAdv-13)**

Cal Advocates recommended that PG&E’s high cost of wildfire liability insurance not be exclusively passed on to its ratepayers in the test year 2023 GRC.<sup>23</sup> Instead, Cal Advocates sought to have PG&E shareholders contribute to wildfire liability insurance costs, whether in the form of self-insurance or for third-party insurance.<sup>24</sup> Cal Advocates contended this approach is

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<sup>17</sup> HE TURN-17, p. 10.

<sup>18</sup> *Id.*

<sup>19</sup> *Id.* at 16.

<sup>20</sup> *Id.* at 17.

<sup>21</sup> *Id.* at 9-10.

<sup>22</sup> *Id.* at 21.

<sup>23</sup> HE CALPA-13, p. 10.

<sup>24</sup> *Id.* at 11.

consistent with the treatment adopted in Assembly Bill (“AB”) 1054 for the Wildfire Fund available for wildfire liability claims in excess of \$1 billion.<sup>25</sup> Furthermore, Cal Advocates opposed reliance on the RTBA for costs of additional insurance should PG&E not obtain \$1 billion of coverage with the authorized amount, and instead called for such costs to be paid for by self-insurance funded by shareholders.<sup>26</sup> Cal Advocates stated that it has no objection to the use of self-insurance in principle, in recognition of the fact that it could be an effective tool to reduce costs to ratepayers.<sup>27</sup>

#### **2.2.4 PG&E Rebuttal (Ex. PG&E-22)**

PG&E’s rebuttal testimony generally disagreed with the recommendations of TURN and Cal Advocates. Among other things, PG&E argued that the cost of procuring liability insurance was one that the Commission had found to be a reasonable cost of service and that subjecting the purchase of insurance to shareholder cost sharing, or after-the-fact reasonableness review and refund would represent a departure from Commission policy.<sup>28</sup> PG&E also argued: (1) that, if adopted, TURN’s and Cal Advocates’ respective recommendations would fail to provide sufficient coverage for PG&E to meet its responsibility to cover the first \$1 billion of wildfire claims annually under the AB 1054 structure;<sup>29</sup> (2) that no party disputed PG&E’s forecast methodology;<sup>30</sup> and (3) that PG&E’s procurement process was consistent with the process previously approved by the Commission, which it described as best practice.<sup>31</sup>

However, PG&E stated that under certain circumstances it would support using self-insurance for the entirety of its wildfire liability insurance program, and not purchase

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<sup>25</sup> *Id.* at 11-12.

<sup>26</sup> *Id.* at 14.

<sup>27</sup> *Id.* at 9.

<sup>28</sup> HE PGE-22, p. 3-16.

<sup>29</sup> *Id.* at 3-15.

<sup>30</sup> *Ibid.*

<sup>31</sup> *Id.* at 3-22 to 3-24.

commercial insurance.<sup>32</sup> PG&E noted the primary benefit of such an approach is that it may result in cost savings for customers more quickly than a hybrid approach that continued to rely on the commercial market even in part. That is,

By accelerating the Company's transition away from commercial insurance, unused self-insurance funds would have the potential to begin carrying over to the following year more quickly, thereby growing the fund balance and reducing the following years' incremental insurance needs and costs.<sup>33</sup>

### **2.3 SETTLEMENT NEGOTIATIONS**

After PG&E served its rebuttal testimony, the Settling Parties began exploring the possibility of reaching agreement on a wildfire liability insurance authorization that would rely exclusively on self-insurance for the test year 2023 GRC cycle. In order to accommodate those discussions, Administrative Law Judges (ALJs) Regina DeAngelis and John Larsen granted a request to postpone evidentiary hearings on PG&E's insurance program, and set September 13, 2022 as the new hearing date. The ALJs' ruling also directed Cal Advocates, TURN and PG&E to provide an update report via e-mail no later than September 5, 2022.<sup>34</sup>

On September 2, 2022, Cal Advocates, TURN and PG&E provided an initial status report via e-mail, indicating that settlement discussions continued and appeared to hold promise, but had not yet reached a point that would warrant removing the reserved hearing date from the schedule. On September 9, 2022, the same parties provided a further status report informing the ALJs that the hearings for insurance-related matters could be taken off calendar, and that settlement discussions continued between them.

On September 20, 2022, PG&E issued a Notice of Settlement Conference pursuant to CPUC Rule of Practice and Procedure 12.1(b).<sup>35</sup> PG&E served the notice on the service list..

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<sup>32</sup> *Id.* at 3-31 to 3-32.

<sup>33</sup> *Ibid.*

<sup>34</sup> A.21-06-016, *E-mail Ruling Providing Public Notice of Evidentiary Hearing on September 13, 2022* (August 24, 2022).

<sup>35</sup> PG&E's Notice of Settlement Conference (September 20, 2022).

On September 28, 2022, the Settling Parties held the settlement conference, which was attended by a number of party representatives.

**3. THE COMMISSION SHOULD APPROVE THE SETTLEMENT WITH AN INTERIM DECISION ISSUED NO LATER THAN FEBRUARY 1, 2023.**

**3.1 Summary of Settlement Terms And Conditions**

The Settling Parties have agreed upon a framework and a structure that would have PG&E rely entirely on self-insurance for wildfire liability insurance coverage during the test year 2023 GRC cycle. The Settlement Agreement, which is attached to this motion, is limited in scope to the insurance-related issues that it directly addresses, and does not purport to settle any other disputed issues in this GRC proceeding. Key elements of the proposed settlement are discussed in summary form below.<sup>36</sup>

- The initial rate recovery amount for PG&E's CPUC-jurisdictional revenue requirement in 2023 shall be \$400 million for self-insurance, a reduction of approximately \$307 million from PG&E's proposed revenue requirement figure in its prepared testimony. (Section 3.2.1)
- In each year of the 2023 GRC cycle, PG&E would have a deductible of 5% of up to \$1 billion of self-insurance costs ultimately paid for wildfire events that occur each calendar year. The total amount of the deductible will not exceed \$50 million annually notwithstanding the number of wildfire events (i.e., 5 percent of \$1 billion of self-insurance costs). No rate recovery of such deductible costs would be permitted. (Section 3.2.3)
- The accrued self-insurance funds will be invested and the resulting returns used to offset a portion of the cost to CPUC-jurisdictional customers. (Section 3.6)
- PG&E commits to seeking recovery of the portion of wildfire liability self-insurance that would be allocated to transmission customers through FERC Transmission Owner (TO) rates in effect starting on January 1, 2024. To the extent recovery is authorized by FERC, the

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<sup>36</sup> Per Rule 12.1(a), the Settling Parties confirm that the settlement is limited to issues in this proceeding, and does not extend to substantive issues which may come before the Commission in other or future proceedings.

amounts recovered would be applied toward achieving a total, available self-insurance accrual amount of \$1 billion, which could reduce the total amount collected from CPUC-jurisdictional customers for that purpose. (Section 3.5)

- The Settlement Agreement includes a mechanism for annual adjustments for 2024, 2025 and 2026.
  - If the estimated claims for wildfire events from the immediately preceding year exceed the amount collected for self-insurance in that same year, the self-insurance amount to be collected in rates during the following year would increase by 50% of the difference between the self-insurance amount collected and estimated claims for events in the immediately preceding year. The increase in revenue requirement would become effective January 1 of the following year, or as soon thereafter as practicable. For example, if PG&E incurred estimated claims of \$500 million for 2023, the self-insurance amount to be collected in 2024 would increase by \$50 million, representing the 50% of the difference between the \$400 million collected for self-insurance in 2023 and the estimated claims amount, and the new funding level of \$450 million would go into effect on January 1, 2024 or as soon thereafter as practicable. (Section 3.2.2.1)
  - The amount collected for self-insurance in CPUC-jurisdictional revenue requirements would be reduced for 2025, 2026 or both if the self-insurance fund balance could reach \$1 billion as of the end of either or both years.<sup>37</sup> (Section 3.2.2.2)
- The Settlement Agreement includes reasonable provisions for addressing the balance of self-insurance funding at the end of the test year 2023 cycle, whether the funding is overcollected (such that the amount of wildfire-related claims over the cycle is less than the amount of self-insurance) or undercollected (the amount of claims exceeds the amount of self-insurance). (Section 3.3)

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<sup>37</sup> At a funding level of \$400 million per year starting in 2023, the earliest a \$1 billion balance could be reached in the self-insurance fund is 2025.

- For the 2023 GRC period, the Settlement Agreement establishes that no reimbursement of self-insurance funding or self-insurance costs will be tied to the outcomes of reasonableness reviews. (Section 3.4)
- The Settlement Agreement provides for an implementation and reporting process that relies on Tier 2 Advice Letters for necessary revenue requirement adjustments under the agreement, as well as resolution of the overcollection or undercollection that may exist at the end of the 2023 GRC period. (Section 3.7)
- The Risk Transfer Balancing Account (RTBA) shall be modified as necessary to support administration of the Settlement Agreement and, more broadly, the shift to reliance on 100% self-insurance for wildfire liability insurance during the 2023 GRC period. (Section 3.8)
- The Settlement Agreement includes a provision that would become effective absent a final decision adopted no later than February 1, 2023, in recognition that despite the Settling Parties' shared belief that self-insurance is the strongly preferred option under current circumstances, as of that date PG&E may need to renew some or all of the commercial coverage that will be expiring on March 31, 2023. (Section 3.10)

**3.2 The Commission Should Conclude The Settlement is Reasonable and Should Be Adopted To Resolve The Wildfire Liability Insurance Issues In This GRC.**

Commission Rule 12.1(d) sets forth the standard for approval of settlements:

The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.<sup>38</sup>

The Commission approves settlement agreements based on whether the settlement agreement is just and reasonable as a whole:

In assessing settlements we consider individual settlement provisions but, in light of strong public policy favoring settlements, we do not base our conclusion on whether any single

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<sup>38</sup> Rule 12.1(d) (May 1, 2021) p. 69.

provision is the optimal result. Rather, we determine whether the settlement as a whole produces a just and reasonable outcome.<sup>39/</sup>

Numerous Commission decisions “have endorsed settlements as an ‘appropriate method of alternative ratemaking’ and express a strong public policy favoring settlement of disputes if they are fair and reasonable in light of the whole record.”<sup>40/</sup> It is long-standing Commission policy to strongly favor settlement.<sup>41/</sup> This policy supports many worthwhile goals, including not only reducing the expense of litigation and conserving scarce Commission resources, but also allowing parties to reduce the risk that litigation will produce unacceptable results.<sup>42/</sup>

The Settling Parties urge the Commission to find that the Settlement Agreement is reasonable in light of the whole record, both for its shift to reliance solely on self-insurance for the test year 2023 GRC cycle, and for the specific approach taken to achieve such a shift. The Settling Parties are knowledgeable and experienced regarding the wildfire insurance-related issues in this proceeding, and have a well-documented history of strongly-held positions on those issues. The Settling Parties also share a deep-seated concern that the rise in third-party liability insurance costs in recent years (from a forecast of \$52.4 million in the 2017 GRC to as much as \$707 million in the 2023 GRC) has created circumstances that warrant developing and implementing an alternative with a reasonable possibility of achieving sufficient insurance coverage at a lower overall cost to PG&E’s customers. Reliance on self-insurance for this GRC period is such an alternative.

The evidentiary record fully supports the shift to 100% self-insurance for wildfire liability insurance. PG&E’s direct testimony included two self-insurance alternatives that would be coupled with third party coverage, with the utility’s preferred approach creating a separate self-insurance funding mechanism that would hopefully serve to accrue a self-insurance fund that

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<sup>39/</sup> D.10-04-033, *mimeo*, p. 9.

<sup>40/</sup> See, e.g., D.05-10-041, *mimeo*, p. 47; D.15-03-006, *mimeo*, p. 6; and D.15-04-006, *mimeo*, p. 8.

<sup>41/</sup> D.10-06-038, *mimeo*, p. 38.

<sup>42/</sup> D.14-12-040, *mimeo*, p. 15.

would lower the overall cost to PG&E customers.<sup>43</sup> TURN's testimony recommended reliance on self-insurance without any third party coverage given the high cost of the latter.<sup>44</sup> Cal Advocates' testimony did not oppose the use of self-insurance in addition to commercial insurance within PG&E's program, but recommended that it be funded by PG&E's shareholders.<sup>45</sup> The Settlement Agreement successfully found an overall outcome that would rely solely on self-insurance, and addresses related issues regarding, among other things, the potential need for adjustments to the associated revenue requirement during the test year 2023 GRC period, and for post-GRC adjustments should the amount collected during the GRC period prove insufficient to cover wildfire liability claims from events that occur during that period.

The potential benefit to PG&E's customers is obvious in the test year 2023 authorized revenue requirement, as PG&E would collect \$400 million from its customers for a self-insurance fund, a substantial reduction as compared to the utility's proposed funding of \$707 million (of which \$250 million would be for self-insurance). Additional savings of a smaller magnitude would appear in the form of avoided fees and taxes tied to third-party insurance coverage, amounting to at least approximately \$14 million in 2023 that PG&E would not need to collect from ratepayers under the proposed self-insurance structure.<sup>46</sup> Furthermore, the Settlement Agreement provides for investment of the accrued self-insurance funds, with a return that will provide an additional small contribution to the amount of accrued funds and could serve to reduce the total amount collected from PG&E customers. Similarly, the Settlement Agreement commits PG&E to seeking to include an appropriate amount of wildfire liability self-insurance costs in the utility's FERC-jurisdictional revenue requirement for the 2024-2026 period, thus reducing the total amount collected in CPUC-jurisdictional revenue requirement.

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<sup>43</sup> HE PGE-09, pp. 3-31 to 3-37.

<sup>44</sup> HE TURN-17, p. 16.

<sup>45</sup> HE CALPA-13, p. 14.

<sup>46</sup> PG&E would adjust its Results of Operations Model to account for these additional customer benefits to the extent PG&E is able to avoid purchasing additional commercial insurance as a result of this settlement.

The Settling Parties wish to be clear – the self-insurance approach embodied in the Settlement Agreement does not guarantee that PG&E’s customers will pay less for wildfire liability insurance during the test year 2023 GRC period than would be the case if the utility continued to rely on third-party or other market-based insurance to provide some or all of its wildfire liability coverage. The total cost to PG&E customers would depend on the total amount of eligible wildfire liability claims that PG&E incurs during the 2023-2026 period.<sup>47</sup> If the wildfire liability claims incurred during the 2023-26 period are on average below the cost of equivalent third-party or other market based insurance (approximately \$750 million for \$1 billion of coverage in recent years), customers will pay less under the self-insurance approach. However, for certain scenarios in which PG&E incurs wildfire liability claims that on average equal or exceed the amount it would have paid for third-party or other market-based insurance during each of those years, and PG&E’s customers could pay more for self-insurance than they might have for third-party insurance during this period. The Settling Parties have reviewed the outcomes achieved under the proposed mechanism for numerous scenarios, representing a range of potential outcomes for the upcoming four-year period. This modeling showed that a self-insurance framework would save customers money for the vast majority of situations with the exception of those that assumed near full-limit losses for most years. Additionally, even a single year with relatively low claims activity has the potential to save such a significant amount of money in premiums such that it would likely make the self-insurance framework less expensive for customers over the 4-year period as compared to relying on third-party insurance. As such, each of the Settling Parties believe that, on balance, PG&E’s customers would be well-served by self-insurance even with this risk of potentially paying more for wildfire liability insurance coverage during the test year 2023 GRC period.

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<sup>47</sup> For purposes of this simplified illustration, the Settling Parties have not attempted to calculate the reduced fees and taxes, contribution from PG&E’s FERC-jurisdictional revenue requirement, or return earned by the accrued self-insurance funds between collection and pay-out to claimants.

The Settling Parties submit that the Settlement Agreement is consistent with law, as they are aware of no statutory provisions or controlling law that would be contravened or compromised by the Settlement Agreement. The Settlement Agreement is premised on enabling PG&E to maintain \$1 billion of wildfire liability insurance coverage during the 2023-2026 period, a level consistent with the requirement that the utility maintain reasonable insurance coverage under Public Utilities Code Section 3293.

The Settling Parties agree that the Settlement Agreement is in the public interest. In addition to the potential customer savings described above, the Settlement Agreement permits the Commission to resolve a challenging issue with well-supported litigation positions without the need for further hearings or briefing on the subject. Even where, as here, the subject matter is a subset of the overall range of disputed issues in this GRC, such an outcome helps to conserve the Commission's and Settling Parties' time and resources. Adoption of the Settlement Agreement would also implement a framework for making any necessary adjustments to the associated revenue requirement for 2024-2026, based on the amounts collected for self-insurance and, if any, the claims incurred for wildfire liability, thus hopefully avoiding or at least reducing the need for parties or the Commission to devote future time or resources to administration of the adopted framework.

In summary, the Settling Parties urge the Commission to determine that, in light of the whole record, the proposed Settlement Agreement is reasonable, consistent with law, and in the public interest, and on that basis to approve and adopt the Settlement Agreement.

**3.3 The Commission Should Recognize That This Settlement Presents the “Rare Case” In Which A Deadline for Approval is Warranted, And Issue An Interim Decision No Later Than February 1, 2023.**

Rule 12.1(c) of the Commission's Rules of Practice and Procedure states:

Settlements should ordinarily not include deadlines for Commission approval; however, in the rare case where delay beyond a certain date would invalidate the basis for the proposal, the timing urgency must be clearly stated and fully justified in the motion.

The Settling Parties submit that the circumstances present here represent such a “rare case,” and therefore urge the Commission to adopt an approach under which a final decision adopting the Settlement Agreement would be issued no later than February 1, 2023.

A substantial portion of PG&E’s current wildfire liability insurance coverage for the 2022-2023 policy year is set to expire on March 31, 2023.<sup>48</sup> PG&E would need to make decisions on how to replace that insurance coverage by approximately mid-February 2023, and would likely need to engage its brokers for the renewal by the beginning of February to make that timeline. Absent authority to implement a 100% self-insurance model would likely choose to rely on some amount of third-party or other market-based insurance products for that purpose.<sup>49</sup> Furthermore, having to purchase additional commercial insurance policies may represent a lost opportunity for the potential benefits of self-insurance for not just the period between the renewal and a decision on the settlement, but perhaps for a full 12-month period.<sup>50</sup> Issuing a final decision by February, 1 2023 on the Settlement Agreement would enable the utility to implement a 100% self-insurance approach to wildfire liability insurance at the earliest opportunity, and thereby maximize the potential benefits such a shift in insurance strategy could deliver to PG&E’s customers.

The Settling Parties submit that the previous sections of this motion establish that the potential benefits of shifting to a self-insurance framework for wildfire liability insurance will likely be maximized to the extent that shift takes place earlier rather than later during the test year 2023 GRC cycle. That is, the funding of self-insurance is intended to achieve overall cost savings by avoiding the need to rely upon third-party or other market-based insurance products. Placing PG&E in a position in which it may feel compelled to rely on those products notwithstanding the pending settlement is not consistent with the approach under the Settlement

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<sup>48</sup> Attachment B, Declaration of Stephen J. Cairns ¶ 6.

<sup>49</sup> *Id.* ¶¶ 6 and 7.

<sup>50</sup> To the extent any insurance products with terms less than 12-months may be available to purchase, it is unlikely they would provide significant cost savings compared to 12-month policies. (*Id.* at ¶ 6.)

Agreement. Thus, this Settlement Agreement presents the “rare case” described in Rule 12.1(c), that is, a delay in implementation would at least partly invalidate the basis for the proposal. Therefore, this motion asks the Commission to adopt a schedule under which a final decision would be issued no later than February 1, 2023.

The Settling Parties pledge their collective willingness to do what they can to support the effort to achieve a timely final decision on this Settlement Agreement. For starters, Settling Parties are concurrently filing and serving a motion seeking the shortening of time for responses to the instant motion, as well as for any reply that may be necessary from the Settling Parties.<sup>51</sup> The Settling Parties assume that by the end of October 2022 the Commission would have all of the information needed to act on the Settlement Agreement. However, if the Commission determines it needs additional information of any sort, the Settling Parties are committed to presenting such information as expeditiously as practicable, whether through a written submission or through discussions at a status conference devoted to this topic, or in whatever forum the Commission designates. If a Proposed Decision specific to the wildfire liability insurance issues covered by the Settlement Agreement could issue by the end of 2022, the Commission could reasonably expect to address it in one of its first two or three business meetings of 2023.<sup>52</sup>

The Settling Parties acknowledge the additional burden that an interim decision places on the assigned Administrative Law Judges and the other Commission personnel who would be involved in its preparation. Under circumstances such as these, however, the Settling Parties are confident the Commission will recognize that the potential benefits of a timely decision on the Settlement Agreement will make worthwhile the additional effort to produce such a decision.

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<sup>51</sup> The accompanying motion proposes to shorten the response period to 14 days (from 30 days), and the reply period to 7 days (from 15 days). The Settling Parties represent the only parties who sponsored direct testimony on the wildfire liability insurance issues in this proceeding, and are hopeful that no party will take a position opposed to the settlement.

<sup>52</sup> To the Settling Parties’ collective knowledge, the Commission has not yet established the schedule of business meeting dates for 2023.



# **ATTACHMENT A**

## **SETTLEMENT AGREEMENT BETWEEN PACIFIC GAS AND ELECTRIC COMPANY, THE UTILITY REFORM NETWORK AND THE PUBLIC ADVOCATES OFFICE AT THE CALIFORNIA PUBLIC UTILITIES COMMISSION ON WILDFIRE LIABILITY INSURANCE ISSUES**

## **APPLICATION 21-06-021**

### **SETTLEMENT AGREEMENT BETWEEN PACIFIC GAS AND ELECTRIC COMPANY, THE UTILITY REFORM NETWORK AND THE PUBLIC ADVOCATES OFFICE AT THE CALIFORNIA PUBLIC UTILITIES COMMISSION ON WILDFIRE LIABILITY INSURANCE ISSUES**

#### **ARTICLE 1**

##### **INTRODUCTION**

In accordance with Article 12 of the Rules of Practice and Procedure (Rule) of the California Public Utilities Commission (CPUC or Commission), the Settling Parties (as defined *infra* at section 2.4) mutually accept the terms and conditions stated herein and enter into this partial Settlement Agreement (Settlement) to resolve all disputed issues with respect to PG&E's wildfire liability insurance program and forecast at issue in this proceeding.

#### **ARTICLE 2**

##### **DEFINITIONS**

- 2.1** The term "PG&E" means Pacific Gas and Electric Company.
- 2.2** The term "Cal Advocates" means the Public Advocates Office at the California Public Utilities Commission.
- 2.3** The term "TURN" means The Utility Reform Network.
- 2.4** The term "Settling Parties" means collectively PG&E, TURN and Cal Advocates.
- 2.5** The terms "CPUC" or "Commission" mean the California Public Utilities Commission.
- 2.6** The term "Rule" means the CPUC Rules of Practice and Procedure (May 1, 2021).
- 2.7** The term "Settlement" means this Settlement Agreement.

- 2.8** The term “2023 GRC” means PG&E’s 2023 General Rate Case Application 21-06-021.
- 2.9** The term “2023 GRC Period” means the period between January 1, 2023 and December 31, 2026 for which rates will be in effect in accordance with the Commission’s final decision in this proceeding.
- 2.10** The term “Wildfire Event” means a wildfire that was ignited between January 1, 2023 and December 31, 2026. It also includes wildfires that were ignited in 2027 to the extent the self-insurance framework is extended into 2027 as provided for in this Settlement.
- 2.11** The term “Self-Insurance Costs” means the same costs that have typically been covered by third-party, commercial insurance coverage including the cost of wildfire liability claims, judgments, settlements, court costs and associated legal fees (excluding the costs of PG&E’s in-house counsel) for Wildfire Events that are paid through Self-Insurance.
- 2.12** The term “RTBA” means the Risk Transfer Balancing Account approved in Decision 20-12-005 concerning PG&E’s 2020 General Rate Case, as modified consistent with this Settlement.
- 2.13** The term “Adjustment Mechanism” is the mechanism for determining the revenue requirements for 2024 through 2026 and potentially 2027 as described in Section 3.2.2 below.

### **ARTICLE 3**

#### **SETTLEMENT TERMS AND CONDITIONS**

##### **3.1 Self-Insurance Only Framework for Wildfire Liability Insurance**

The Settling Parties agree that for the 2023 GRC Period, PG&E will not purchase wildfire liability insurance from the commercial insurance market except as described in Section 3.10. PG&E will self-insure its wildfire liability risk as described in this Settlement. For the 2023 GRC Period, PG&E’s wildfire liability insurance program will consist of (i) the remaining wildfire liability insurance coverage currently in place through existing commercial market policies, which will expire in 2023; and (ii) additional self-insurance as provided in this Settlement. To the extent PG&E has wildfire liability insurance coverage through existing commercial market policies for a Wildfire Event, PG&E would exhaust such coverage before using Self-Insurance, but may pay any costs incurred within the self-insured retention in its

commercial policies using available Self-Insurance funding.

### **3.2 Funding for Self-Insurance in Rates**

All funding for self-insurance including Self-Insurance Costs paid from the self-insurance program will be included in customer rates with the exception of the PG&E deductible described in Section 3.2.3. As described in Section 3.4 below, neither the funding for self-insurance nor Self-Insurance Costs shall be subject to additional reasonableness review or refund.

#### **3.2.1 Funding for Test Year 2023**

PG&E is authorized to collect a revenue requirement of \$400 million for self-insurance for wildfire liability in 2023.

#### **3.2.2 Adjustment Mechanism for 2024-2026 Funding**

The revenue requirement for each year 2024 through 2026 will be subject to adjustment based on the level of Self-Insurance Costs for Wildfire Events that occurred in the prior year as described in this section 3.2.2.

##### **3.2.2.1 Increase in Funding Based on Self-Insurance Costs Activity in Prior Year**

For each year during 2024-2026, if the estimated Self-Insurance Costs for Wildfire Events from the immediately preceding year exceed the amount collected for self-insurance in that same year, the self-insurance amount to be collected in rates during the following year would increase by 50% of the difference between the self-insurance amount collected and the estimated Self-Insurance Costs for Wildfire Events in the immediately preceding year. The amount of funding from the prior year would be effective January 1 each year thereafter. The amount of any increase in revenue requirement compared to the prior year would be effective January 1 of each year or as soon thereafter as practicable subject to the Advice Letter process set forth in Section 3.7 below. The amount of the PG&E deductible would not be considered in determining whether an increase is triggered under this Adjustment Mechanism.<sup>1</sup>

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<sup>1</sup> See Appendix A for illustrative Adjustment Mechanism calculations showing potential increases in revenue requirements from claims activity.

### **3.2.2.2 Decrease in Funding Based on Self-Insurance Costs Activity in Prior Year**

For each year during 2024-2026, the self-insurance amount to be collected in rates shall be no greater than the amount that would achieve a total, available self-insurance accrual amount of \$1 billion as of the end of the year, assuming no wildfire liability Self-Insurance Costs are incurred that year. Available self-insurance means a surplus amount of self-insurance that PG&E has already collected in rates, which has not been identified by PG&E as necessary to be reserved to pay for Self-Insurance Costs from a Wildfire Event.<sup>2</sup>

### **3.2.2.3 Applicability of Adjustment Mechanism in 2027**

If the self-insurance framework is extended in 2027 as described in this Settlement, the Adjustment Mechanism will continue to be in effect in 2027 subject to the same terms described for 2024 through 2026 above.

### **3.2.2.4 No Additional Adjustment Through Post-Test Year Ratemaking Mechanism**

PG&E's litigation position sought a \$75 million increase in each of the three post-test years of this GRC cycle as additional funding for self-insurance. There will be no such adjustment under the settlement.

### **3.2.3 PG&E Deductible**

PG&E will have a deductible equal to 5 percent of up to \$1 billion of Self-Insurance Costs ultimately paid for Wildfire Events that occur each calendar year. The total amount of the deductible will not exceed \$50 million annually (i.e., 5 percent of \$1 billion). The amount of the deductible will be less than \$50 million annually if the amount of Self-Insurance Costs paid for Wildfire Events that occur in a calendar year is less than \$1 billion. The amount of the deductible will not be included in customer rates.<sup>3</sup>

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<sup>2</sup> See Appendix A for illustrative Adjustment Mechanism and Deductible calculations showing potential decreases in revenue requirements based on the \$1 billion available self-insurance cap.

<sup>3</sup> See Appendix A for illustrative Adjustment Mechanism and Deductible calculations showing illustrative calculations of deductibles based on the amount of claims.

### **3.3 Overcollections and Undercollections at the End of the 2023 GRC Period**

The Settling Parties acknowledge that the total amount collected in rates for self-insurance over the 2023 GRC Period will likely differ from the actual amount of Self-Insurance Costs to be paid through the self-insurance program for Wildfire Events. This section describes how overcollections and undercollections will be addressed at the end of the 2023 GRC Period.

#### **3.3.1 Determination of the Self-Insurance Balance at the end of the 2023 GRC Period**

Determining the amount by which the self-insurance fund balance is overcollected or undercollected at the end of the 2023 GRC Period will depend, in part, on a true-up to reflect potential changes as the total amount of Self-Insurance Costs paid for the 2023 GRC Period becomes known and finalized. Because of the lag time between a Wildfire Event and payment of claims from that event, this true up may extend beyond the end of year 2026. The true-up will be handled through the Tier 2 Advice Letter process and RTBA as described in Sections 3.7 and 3.8 below respectively.

#### **3.3.2 Treatment of Undercollection at the End of the 2023 GRC Period**

If the amounts collected for self-insurance during the 2023 GRC Period are undercollected (i.e., the amounts calculated as described above and collected in rates are less than the total amount of Self-Insurance Costs for Wildfire Events that occurred during the GRC period), the amount of undercollection shall be recovered in rates through the RTBA. Subject to a cap of \$300 million per year, the undercollection shall be recovered 40% in 2027; 30% in 2028; and 30% in 2029. To the extent the \$300 million per year cap means the full undercollection for the 2023 GRC Period is not fully recovered by the end of 2029, the remainder would be recovered in 2030. PG&E shall recover interest at the then-authorized memorandum and balancing account rate on the amount of undercollected Self-Insurance Costs at the rate that applies to its regulatory accounts.<sup>4</sup> If the self-insurance framework is extended into 2027 and an undercollection results at the end of that year, PG&E shall be entitled to recover

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<sup>4</sup> See Appendix B for illustrative calculations for cost recovery of undercollections at the end of the 2023 GRC Period under the worst case scenario.

the undercollection subject to the same annual caps and percentages set forth in this section for 2027 through 2030, but beginning in 2028 and concluding in 2031.

### **3.3.3 Treatment of Overcollection at the End of the 2023 GRC Period**

If the amounts collected for self-insurance during the 2023 GRC Period are overcollected (i.e., the amounts calculated as described above and collected in rates are more than the total amount of Self-Insurance Costs for Wildfire Events that occurred during the 2023 GRC Period), the amount of overcollection shall be available for self-insurance as part of PG&E's 2027 insurance program with any remainder subject to disposition as the Commission may direct in its decision on PG&E's 2027 General Rate Case.

### **3.4 No Reimbursement of Self-Insurance Funding or Self-Insurance Costs Tied to Reasonableness Determination**

For the 2023 GRC Period, self-insurance funding collected in customer rates shall not be subject to refund or reimbursement. Other than the deductible amount addressed in Section 3.2.3, PG&E shareholders would not be at risk of bearing Self-Insurance Costs paid from the self-insurance program. To the extent the self-insurance funding from the revenue requirement approved in the 2023 GRC is used to pay Self-Insurance Costs incurred from Wildfire Events, there would be no further review or determination of reasonableness associated with PG&E's actions leading up to a wildfire for purposes of allocating self-insurance funding or Self-Insurance Costs between customers and shareholders. This would not impact in any way any need for a determination of reasonableness associated with PG&E's actions leading up to a wildfire for any other purposes, including but not limited to whether shareholders are required to reimburse the AB 1054 Wildfire Fund for any claims paid from the Fund.

### **3.5 Rate Recovery in Transmission Owner Rates**

The Settling Parties acknowledge that there is currently a settlement in place with respect to the Federal Energy Regulatory Commission (FERC) formula rate for PG&E through the end of 2023, which does not specifically provide for the recovery of self-insurance, but does allow for recovery of wildfire liability insurance costs through the formula rate (Pacific Gas and

Electric Company, 173 FERC ¶ 61,281 (2020)). Self-insurance will be funded through Commission-jurisdictional rates and allocated to the electric distribution function. The formula rate settlement provides that PG&E shall file at FERC by no later than October 18, 2023, a revised formula rate for rates that would go into effect on January 1, 2024. In its revised formula rate filing, PG&E will seek recovery of the portion self-insurance that would be allocated to transmission customers through FERC Transmission Owner (TO) rates in effect starting on January 1, 2024.

To the extent the authorized by FERC, PG&E shall: (i) allocate wildfire liability insurance costs to TO customers using the FERC-adopted allocations; and (ii) use any amounts collected from TO customers for self-insurance and apply those amounts toward achieving a total, available self-insurance accrual amount of \$1 billion. Self-Insurance will not be available for the amount of any wildfire claims allocated to FERC TO customers unless FERC approves PG&E's request to recover self-insurance through the formula rate.

### **3.6 Investment of Accrued Self-Insurance Funds**

PG&E will invest self-insurance funds not reserved for claims into an investment vehicle subject to appropriate safety and liquidity conditions, and any returns on that investment will be applied to offset the costs of self-insurance.

### **3.7 Administration of the Settlement Via Tier 2 Advice Letter Process**

The Settling Parties agree that the following aspects of the Settlement should be subject to administration via Tier 2 Advice Letter as follows:

#### **3.7.1 Revenue Requirement Adjustment Mechanism for 2024 through 2026**

PG&E will file a Tier 2 Advice Letter that includes the claims activity for the prior year and shows the calculation of the revenue requirement to be included in rates for the following year under the Adjustment Mechanism.

The Settling Parties acknowledge that the timing of Self-Insurance Costs data with respect to specific Wildfire Events can vary. As such, the Settling Parties intend for the

Settlement to provide flexibility with respect to the timing of Advice Letter submissions to facilitate the implementation of the Adjustment Mechanism. PG&E may file a Tier 2 Advice Letter providing its best estimate of Self-Insurance Costs for the year such that any adjustments to the revenue requirement may be implemented on January 1<sup>st</sup> of the following year or as soon as practicable thereafter. PG&E may file the Advice letter before the end of the calendar year, or until April 1 of the following year.

The Settling Parties also acknowledge that initial Self-Insurance Costs for Wildfire Events can fluctuate materially as additional information regarding the Wildfire Event becomes known. Therefore, it is the intent of the Settling Parties that PG&E should be permitted to update the Self-Insurance Costs information submitted for purposes of implementing the Adjustment Mechanism from time to time. The Settling Parties agree that PG&E is authorized to file up to two additional Tier 2 Advice Letters within the calendar year as necessary to inform of material changes to previously reported Self-Insurance Costs data and seek to update the authorized revenue requirements permitted under the Adjustment Mechanism based on the updated data.

### **3.7.2 PG&E Deductible**

PG&E may account for its annual deductible by offsetting the amount of the revenue requirement to be collected in a following year or by otherwise including the amount of the deductible as a credit to customers in the RTBA. PG&E's proposed ratemaking treatment of the deductible will be addressed as appropriate in its Tier 2 Advice Letters.

### **3.7.3 Treatment of Overcollections and Undercollections**

The treatment of potential overcollection or undercollection that may exist at the end of the 2023 GRC Period, including whether the self-insurance framework will be extended into 2027 as provided for in this Settlement, will be addressed via Tier 2 Advice Letter Filing.

#### **3.7.4 Advice Letter Process Beyond the 2023 GRC Period**

The Advice Letter process described in Section 3.7 above will continue for 2027 to the extent the self-insurance framework is extended to that year as described in this Settlement. Additionally, as described in Section 3.3.1 above, the Settling Parties acknowledge that because of a lag in the timing of payment of claims for Wildfire Events, the ultimate amount of any overcollection or undercollection may not be known at the end of the 2023 GRC Period and may need to be trued up in the years that follow. The Advice Letter process described in Section 3.7.3 will be used as necessary for that true-up.

#### **3.8 Risk Transfer Balancing Account (RTBA)**

The RTBA will be revised as necessary to support administration of this Settlement, which implements a 100 percent self-insurance framework wildfire liability insurance for the 2023 GRC Period. This will include tracking self-insurance funding in rates, tracking Self-Insurance Costs, implementing the self-insurance revenue requirements using the Adjustment Mechanism, implementing the PG&E deductible as an offset to those revenue requirements or as a credit to the RTBA, crediting customers for any cost recovery from transmission customers through the FERC process, accounting for overcollections or undercollections at the end of the 2023 GRC Period including the truing up those amounts beyond 2026, applying investment proceeds against Self-Insurance Costs, and collecting interest. The Settling Parties acknowledge that the self-insurance only framework is a novel one and that there could be unanticipated costs or benefits associated with its implementation that should be included in the RTBA as well. To the extent any such unanticipated costs or benefits are recorded to the RTBA, PG&E will identify and discuss them in its Tier 2 Advice Letter filings where applicable. The shift to a 100% self-insurance framework for the 2023 GRC Period shall not affect PG&E's authority to collect through the RTBA the remaining, outstanding costs of commercial insurance policies PG&E has already purchased and paid for during the 2020-2022 time period or other commercial market or other insurance procured for 2023 as described in Section 3.10. Nothing in this Settlement shall limit the applicability of the RTBA to PG&E's non-wildfire liability insurance

program if authorized by the Commission in its decision on PG&E's 2023 GRC.

Notwithstanding whether the self-insurance framework extends beyond the 2023 GRC Period or whether a different regulatory framework may be implemented in the future, the RTBA will remain effective beyond the 2023 GRC Period at least until: (1) the final amounts of claims paid for Wildfire Events are known; (2) the final amounts of any overcollection or undercollection are known; and (3) PG&E has collected the balance of any undercollection in customer rates through the RTBA or otherwise credited back any overcollection to customers.

### **3.9 Term of Settlement**

The term of this Settlement is for the 2023 GRC Period and may be extended into 2027 as set forth in Section 3.3.2 above. In the first quarter of 2026, the Settling Parties will meet to assess the operation of the self-insurance approach through the first three years of the GRC Period, and to discuss likely conditions as of the end of the GRC cycle and for the start of the 2027 GRC cycle. To the extent it appears that an overcollection may result such that the Settling Parties anticipate the Settlement would extend into 2027, PG&E would address that in a Tier 2 Advice Letter as described in Section 3.7.

Additionally, for reasons not limited to those described in Section 3.3.2, upon mutual agreement of the Settling Parties, the Settling Parties may seek Commission authorization to extend the term of this Settlement for one or more years via Tier 2 Advice Letter.

Nothing in this Settlement restricts the proposals that PG&E, Cal Advocates and TURN could put forward for the 2027 General Rate Case.

### **3.10 Achieving Timely Resolution of Wildfire Liability Insurance Approach for 2023-24 Policy Year**

The Settling Parties recognize the need to determine the wildfire liability insurance approach for the 2023-2024 policy year prior to the time when PG&E would be expected to assess insurance options from third-party providers. Therefore, the Settling Parties will seek such timely adoption of this Settlement through means of a Commission decision on these insurance-related issues or another mutually acceptable procedural approach.

PG&E currently has two insurance renewals scheduled for the 2023-2024 policy year. The first renewal would replace coverage set to expire on March 31, 2023. PG&E would need to make decisions on what insurance to include in that renewal by approximately mid-February 2023. The second renewal would replace coverage set to expire on July 31, 2023. PG&E would need to make decisions on what insurance to include in that renewal by approximately mid-February 2023 and would likely need to engage its brokers by the beginning of February to meet that timeline.

Should the Settlement be adopted in its entirety prior to the time that PG&E would need to engage its brokers for the renewal, PG&E agrees not to replace the expiring coverage. Should the Settlement not be adopted in its entirety prior to that time, the Settling Parties agree that PG&E may replace the amount of coverage expiring at the time of the renewal with commercial insurance, self-insurance or a combination thereof and seek cost recovery for those amounts in rates. The Settling Parties agree that they would not oppose such a cost recovery request on procedural or policy grounds, but reserve their right to address whether the premiums were reasonably negotiated and reflect market conditions. The Settling Parties intend for this provision to be immediately binding on execution of this Settlement and to remain in effect notwithstanding the Commission's final decision on this Settlement.

## **ARTICLE 4**

### **GENERAL PROVISIONS**

#### **4.1 Commission's Primary Jurisdiction**

The Settling Parties agree that the Commission has primary jurisdiction over any interpretation, enforcement, or remedies regarding this Settlement. None of the Settling Parties

may bring an action regarding this Settlement in any State or Federal court or administrative agency without having first exhausted its administrative remedies at the Commission.

#### **4.2 Resolution of Issues**

This Settlement is presented to the Commission pursuant to Article 12 of the Commission's Rules of Practice and Procedure. As a compromise among their respective litigation positions, the Settling Parties hereby agree that this Settlement resolves all issues with respect to PG&E's wildfire liability insurance program and forecasts within the test year 2023 GRC proceeding.

#### **4.3 Settlement is Reasonable Based on the Record**

In executing this Settlement, each Settling Party declares and mutually agrees that the terms and conditions are reasonable in light of the whole record, consistent with law, and in the public interest.

#### **4.4 Compromise; No Precedent**

The Settling Parties agree that this Settlement represents a compromise to which all Settling Parties have contributed. It does not constitute an agreement or endorsement of disputed facts and law presented by the Settling Parties in this proceeding. No provision of this Settlement shall be construed against any Settling Party because that Settling Party or its counsel drafted the provision. Except as provided in Rule 12.5, the Settling Parties agree that this Settlement does not constitute precedent regarding any principle or issue in this proceeding or in any future proceeding.

#### **4.5 No Personal Liability**

None of the Settling Parties, or their respective employees, attorneys, or any other individual representative or agent, assumes any personal liability as a result of the Settling Parties signing this Settlement.

#### **4.6 Entire Agreement**

This Settlement embodies the entire understanding and agreement of the Settling Parties

with respect to the matters described herein. Except as described in this Settlement, the Settlement supersedes and cancels any and all prior oral or written agreements, principles, negotiations, statements, representations, or understandings among the Settling Parties. This Settlement constitutes the entire agreement among the Settling Parties. Unless otherwise provided in this Settlement, all proposals and recommendations by the Settling Parties with regard to PG&E's wildfire liability insurance program and forecasts, including, but not limited to those set forth in the Joint Comparison Exhibit<sup>5</sup> are either withdrawn, if so indicated above, or considered subsumed without adoption by this Settlement.

#### **4.7 No Reliance**

None of the Settling Parties has relied or presently relies on any statement, promise, or representation by any other Settling Party, whether oral or written, except as specifically set forth in this Settlement. Each Settling Party expressly assumes the risk of any mistake of law or fact made by such Settling Party or its authorized representative.

#### **4.8 No Modification**

This Settlement constitutes the entire understanding and agreement of the Settling Parties regarding the matters set forth herein. All prior oral or written agreements, settlements, principles, negotiations, statements, representations, or understandings whether oral or in writing regarding any matter set forth in this Settlement, are expressly waived and have no further force or effect.

Until such time as the Commission has adopted this Settlement, the Settlement may not be altered, amended, or modified in any respect except in writing and with the express written and signed consent of all the Settling Parties hereto. After such time as the Commission has adopted this Settlement, the Settling Parties may seek changes to this Settlement through a Petition for Modification of the Commission's decision adopting the Settlement.

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<sup>5</sup> Hearing Exhibit PGE-64.

#### **4.9 Joint Support**

Consistent with Section 3.10 above, the Settling Parties agree to seek expeditious approval of this Settlement and the terms of the Settlement, and to use their reasonable best efforts to secure Commission approval of it without change, including by filing a joint motion seeking approval of this Settlement and any other written filings, appearances, and other means as may be necessary to secure CPUC approval. The Settling Parties agree to actively and mutually defend this Settlement if its adoption is opposed by any other party in proceedings before the Commission. In accordance with Rule 12.6, if this Settlement is not adopted by the Commission, its terms are inadmissible in any evidentiary hearing unless their admission is agreed to by the Settling Parties. The provisions of this Section shall impose obligations on the Settling Parties immediately upon the execution of this Settlement.

#### **4.10 Rejection or Modification of the Settlement**

The Settling Parties agree that if the Commission fails to adopt this Settlement in its entirety and without modification, the Settling Parties shall convene a settlement conference within 15 days thereof to discuss whether they can resolve the issues raised by the Commission's actions. If the Settling Parties cannot mutually agree to resolve the issues raised by the Commission's actions, the Settlement shall be rescinded, and the Settling Parties shall be released from their obligation to support the Settlement. Thereafter the Settling Parties may pursue any action they deem appropriate but agree to cooperate in establishing a procedural schedule. Settling Parties reserve all rights set forth in Rule 12.4.

#### **4.11 Severability**

The Settling Parties agree that the provisions of this Settlement are not severable. If the Commission, or any Court of competent jurisdiction, rejects, overrules or modifies as legally invalid any material provision of the Settlement, the Settlement may be considered rescinded as of the date of such ruling or modification becomes final, at the discretion of the Settling Parties.

#### **4.12 Voluntary and Knowing Acceptance**

Each of the Settling Parties hereto acknowledges and stipulates that it is agreeing to this Settlement freely, voluntarily, and without any fraud, duress, or undue influence by any other Settling Party. Each Settling Party has read and fully understands its rights, privileges, and duties under this Settlement, including its right to discuss this Settlement with its legal counsel, which has been exercised to the extent deemed necessary.

#### **4.13 Execution and Amendment**

This Settlement and any amendment thereto may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

#### **4.14 Effective Date and Term**

This Settlement will become effective and binding on each of the Settling Parties as of the date when it is fully executed. It will also be binding upon each of the Settling Parties' respective successors, subsidiaries, affiliates, representatives, agents, officers, directors, employees, and personal representatives, whether past, present, or future. Unless otherwise expressly stated, the obligations set forth in this Settlement shall take effect upon the Commission's approval of this Settlement and shall be limited to the term of the 2023 GRC except as otherwise described in this Settlement.

#### **4.15 Enforceability**

The Settling Parties agree and acknowledge that after issuance of the Commission decision approving and adopting this Settlement, the Commission may reassert jurisdiction and reopen this proceeding to enforce the terms and conditions of this Settlement.

#### **4.16 Authority to Sign**

Each Settling Party executing this Settlement represents and warrants to the other Settling Party that the individual signing this Settlement and the related Motion has the legal authority to do so on behalf of the Settling Party.

**4.17 Limited Admissibility**

Each Settling Party signing this Settlement agrees and acknowledges that this Settlement will be admissible in any subsequent Commission proceeding for the sole purpose of enforcing the Terms and Conditions of this Settlement.

**4.18 Estoppel or Waiver**

Unless expressly stated herein, the Settling Parties' execution of this Settlement is not intended to provide any of the Settling Parties in any manner a basis of estoppel or waiver in this or any other proceeding.

In witness whereof, intending to be legally bound, the Settling Parties hereto have duly executed this Settlement on behalf of the parties they represent.

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PUBLIC ADVOCATES OFFICE AT  
THE CALIFORNIA PUBLIC UTILITIES  
COMMISSION

By: 

Name: Linda Serizawa  
Title: Deputy Director

Date: October 7, 2022

THE UTILITY REFORM NETWORK

By: \_\_\_\_\_

Name: Robert Finkelstein  
Title: General Counsel

Date: October 7, 2022

PACIFIC GAS AND ELECTRIC  
COMPANY

By: \_\_\_\_\_

Name: Carla Peterman  
Title: Executive Vice President, Corporate  
Affairs and Chief Sustainability Officer  
PG&E Corporation

Date: October 7, 2022

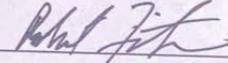
PUBLIC ADVOCATES OFFICE AT  
THE CALIFORNIA PUBLIC UTILITIES  
COMMISSION

By: \_\_\_\_\_

Name: Linda Serizawa  
Title: Deputy Director

Date: October 7, 2022

THE UTILITY REFORM NETWORK

By:  \_\_\_\_\_

Name: Robert Finkelstein  
Title: General Counsel

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PACIFIC GAS AND ELECTRIC  
COMPANY

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## APPENDIX A

### ADJUSTMENT MECHANISM AND DEDUCTIBLE - ILLUSTRATIVE CALCULATIONS

#### A. Potential Revenue Requirement Increases:

Example 1: The Commission adopts \$400 million self-insurance funding level for 2023 in a GRC decision issued in early February 2023. In August 2023, PG&E files an incident report for a catastrophic wildfire. In October 2023, PG&E discloses an initial estimate of Self-Insurance Costs likely to be submitted due to the wildfire of \$533 million. PG&E would file a Tier 2 advice letter as described in Section 3.7 of the Settlement seeking to set the self-insurance funding level for 2024 at \$467 million, a \$67 million increase compared to the 2024 funding level.

The revenue requirement would be calculated as follows:

- The difference between the 2023 funding level and the estimated Self-Insurance Costs for Wildfire Events in 2023 is \$133 million (\$533 million - \$400 million = \$133 million).
- 50 percent of the \$133 million difference is \$67 million.
- The \$67 million figure is added to the 2023 base funding level of \$400 million to arrive at a new funding level of \$467 million for 2024.
- The new base level of funding going forward, and which will be used in the Adjustment Mechanism for future year's calculations is \$467 million.

The PG&E deductible would be calculated as follows:

- The amount of claims is \$533 million.
- The deductible is 5% of \$533 million (\$26.65 million)

#### B. Potential Revenue Requirement Decreases:

Example: The Commission adopts a \$400 million self-insurance funding level for 2023 in a GRC decision issued in early February 2023. PG&E experiences Self-Insurance Costs of \$50 million in 2023, \$75 million in 2024, and \$100 million in 2025. In this situation, PG&E will have a balance of self-insurance collected in rates that exceed the amount necessary to pay known Self-Insurance Costs. The \$400 million of base funding will be reduced when collecting it would place the balance of available self-insurance above \$ 1 billion. In this scenario, the revenue requirement would be decreased in 2025 as follows:

- At the end of 2023, PG&E would have accrued a \$350 million balance of available self-insurance. (\$400 million collected - \$50 million in reported Self-Insurance Costs)
- At the end of 2024, PG&E would accrued an additional \$325 million balance of available self-insurance (\$400 million collected - \$75 million in reported Self-Insurance Costs). This brings the total available self-insurance balance to \$675 million.
- In 2025, the revenue requirement would therefore be reduced from \$400 million to \$325 million (\$1 billion cap of available self-insurance - \$675 million balance of available self-insurance accrued through 2024).
- In 2026, the revenue requirement would be further reduced from \$325 million to \$ 100 million (\$1 billion cap of available self-insurance - \$625 million balance of available self-insurance accrued through 2024 - \$225 million net from 2025).

## APPENDIX B

### ILLUSTRATIVE CALCULATION REFLECTING THE WORST CASE SCENARIO – COST RECOVERY FOR UNDERCOLLECTIONS AT THE END OF THE 2023 GRC PERIOD

The following illustrative calculation reflecting the worst case scenario demonstrates how the calculation of a hypothetical \$1.125 billion undercollection at the end of the 2023 GRC Period resulting from four consecutive years with \$1 billion in Self-Insurance Costs would thereafter be recovered in rates.

2023 GRC  
Wildfire Liability Insurance Self-Insurance  
Undercollection Calculation Example  
Scenario: Loss of \$1 Billion Per Year  
\$\$ in Millions

Item	2023	2024	2025	2026	End of GRC Balance	2027	2028	2029	2030	Total
Estimated Loss Level	\$1,000	\$1,000	\$1,000	\$1,000						\$4,000
Self-Insurance Annual Contribution	\$400	\$700	\$850	\$925						\$2,875
Cumulative Self-Insurance Funding	\$400	\$1,100	\$1,950	\$2,875						
Loss Payout			\$1,000	\$1,000	\$2,000					
Self-Insurance Balance	\$400	\$1,100	\$950	\$1,875	\$875					
Net Funding Balance at 2026 Year End					\$1,125					
Undercollection Recovery Rate						40%	30%	30%		
Gross Undercollection Calculation						\$450	\$338	\$338		\$1,125
Actual Undercollection Amount Applying \$300 M Annual Cap						\$300	\$300	\$300	\$225	\$1,125

\* Does not reflect any interest earned on Self-Insurance \$\$ and the 5% PG&E deductible.

# **ATTACHMENT B**

## **DECLARATION OF STEPHEN J. CAIRNS**

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric  
Company for Authority, Among Other  
Things, to Increase Rates and Charges for  
Electric and Gas Service Effective on  
January 1, 2023.

Application 21-06-021  
(Filed March 10, 2022)

(U 39 M)

**DECLARATION OF STEPHEN J. CAIRNS  
IN SUPPORT OF THE  
JOINT MOTION OF PACIFIC GAS AND ELECTRIC  
COMPANY (U 39 M), THE UTILITY REFORM  
NETWORK, AND THE PUBLIC ADVOCATES OFFICE  
AT THE CALIFORNIA PUBLIC UTILITIES COMMISSION  
FOR ADOPTION OF SETTLEMENT ON WILDFIRE  
INSURANCE ISSUES**

MARY A. GANDESBERY  
WALKER A. MATTHEWS  
MICHAEL KLOTZ

Pacific Gas and Electric Company  
Law Department  
Post Office Box 7442  
San Francisco, CA 94120  
Telephone: (415) 265-5843  
Facsimile: (415) 973-5520  
E-mail: michael.klotz@pge.com

Dated: October 7, 2022

Attorneys for  
PACIFIC GAS AND ELECTRIC COMPANY

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OF THE STATE OF CALIFORNIA**

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AT THE CALIFORNIA PUBLIC UTILITIES COMMISSION  
FOR ADOPTION OF SETTLEMENT ON WILDFIRE  
INSURANCE ISSUES**

1. I, Stephen J. Cairns, make this declaration to support the Joint Motion of Pacific Gas and Electric Company, The Utility Reform Network, and the Office of Ratepayer Advocates at the California Public Utilities Commission for Expedited Approval and Adoption of the Attached Settlement Agreement on Insurance-Related Issues (Joint Motion). The statements in this declaration are true and correct to the best of my knowledge.

2. I am currently the Vice President and Chief Audit Officer for Pacific Gas and Electric Company (PG&E, the Company or the Utility). I sponsored PG&E's testimony and workpapers on insurance-related issues in this proceeding.<sup>1</sup>

3. In A. 21-06-021, PG&E seeks revenue requirements for wildfire liability insurance in the amounts of approximately \$707 million for 2023 and \$782 million for each year 2024 through 2026 for a hybrid of commercial market insurance and self-insurance in its wildfire liability insurance program. Under PG&E's proposed hybrid approach, there is the possibility

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<sup>1</sup> Hearing Exhibit (HE) PGE-09 Testimony, PGE-09 Workpapers, PGE-22.

for the revenue requirements beyond the 2023 test year to be reduced if PG&E is able to build a balance of unused self-insurance that remains available to pay claims. As described in my testimony in this case, these revenue requirements were forecast using actual cost data from 2021, which was the most recent available to the Utility at the time of its General Rate Case (GRC) application. These revenue requirements reflect the high cost of wildfire liability insurance that the Utility continues to see in the commercial insurance market.

4. As described in the Joint Motion, the Settlement's 100% self-insurance framework has the potential to result in significant savings for customers by avoiding the need to continue purchasing expensive commercial market insurance policies for wildfire liability exposure.

5. In the Joint Motion, the Settling Parties ask the Commission to take expedited action in issuing a decision adopting the settlement. As described in the Joint Motion, the reason for that request is to provide the necessary authority to PG&E to implement the settlement before the time it would need to go back to the commercial market to ensure it has adequate insurance coverage for 2023.

6. PG&E's insurance policies do not align with a January through December calendar year. In the past, the bulk of PG&E's liability insurance policies ran from August 1 through July 31 and therefore, required renewal on August 1 of the following year. One such policy remains in PG&E's program that will expire on July 31, 2023. However, beginning in 2021, the remainder of PG&E's wildfire liability policies were amended to run from April 1 through March 31. To ensure PG&E has adequate coverage for 2023, the insurance coverage provided by those policies would need to be renewed for April 1, 2023 if the Settlement providing authority for PG&E to move to a 100 percent self-insurance framework is not adopted

and implemented prior to that time. While PG&E cannot say with certainty what conditions might exist in the market in early 2023, it is our belief that if we were able to purchase policies of less than a 12-month duration, it is unlikely that they would result in significant cost savings compared to full-year policies.

7. The insurance renewal process is described in PG&E's testimony.<sup>2</sup> Generally speaking, it involves PG&E working collaboratively with its insurance brokers to solicit offers from the global insurance market, which are then evaluated for inclusion in PG&E's insurance program. The process for the April 2023 renewal would likely begin in the January 2023 timeframe. For PG&E to ensure it has the opportunity to procure sufficient coverage from the commercial market, PG&E would need to make decisions on how to replace that insurance coverage by approximately mid-February 2023 and would likely need to engage its brokers for the renewal by the beginning of February to make that timeline.

8. Given the timeframe of the insurance renewal process discussed above, the Settling Parties' Joint Motion requests that the Commission issue a decision adopting the settlement preferably by the end of 2022 and otherwise no later than February 1, 2023. As described in the Joint Motion, the purpose of the request is to provide PG&E the authority to implement the self-insurance framework described in the settlement in time for PG&E to be able to avoid the need to renew the commercial coverage that will be expiring on March 31, 2023.

9. There are likely to be significant potential cost savings for customers associated with implementation of the Settlement in the timeframe proposed by the Settling Parties. While PG&E cannot say with certainty what the cost would be to replace the coverage currently covered in the commercial policies that are set to expire in April 2023, for reference, the cost of

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<sup>2</sup> HE PGE-09 Testimony, p. 3-11.

procuring those policies in April 2022 was approximately \$263 million inclusive of taxes and fees, for approximately \$340 million of wildfire liability insurance coverage. Additionally, the remainder of PG&E's wildfire liability insurance coverage is set to expire on July 31, 2023. The cost to procure that coverage exceeded \$500 million for approximately \$600 million of coverage.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on October 7, 2022, at Walnut Creek, California

A handwritten signature in cursive script that reads "Stephen J. Cairns".

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Stephen J. Cairns